

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTES	PAGE
1 Summary of Significant Accounting Policies	40
Reporting Entity	40
Basic Financial Statements	40
Measurement Focus and Basis of Accounting	41
Financial Statement Presentation	41
Budgets and Budgetary Accounting	42
Assets, Liabilities and Net Assets or Equities	43
Cash and Investments	43
Receivables	43
Interfund Transactions, etc.	44
Inventories	44
Restricted Assets	44
Deferred Charges	44
Capital Assets	44
Compensated Absences	45
Long Term Obligations	45
Fund Equity	45
2 Stewardship, Compliance and Accountability	45
3 Reconciliation of Government-wide and Fund Financial Statements	46
4 Cash and Investments	48
5 Receivables	49
6 Capital Assets	50
7 Pension Plans	52
Public Employees Retirement System (PERS)	52
Law Enforcement Officers and Fire Fighters (LEOFF)	53
Firemen's Pension Plan	55
Municipal Employees Benefit Trust	58
Other Post-Employment Benefits	58
8 Construction Commitments	59
9 Interfund Transfers	59
10 Long-Term Obligations	60
11 Change in Accounting Principle and Restatements	65
12 Special Item and Prior Period Adjustment	66
13 Closed Funds	66
14 Contingencies and Litigation	66
15 Components Included in Reporting Entity	67
16 Subsequent Events	67
17 Risk Management	68
Required Supplementary Information – Firemen's Pension Plan	70

**NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Redmond was incorporated on December 31, 1912 and operates under the laws of the State of Washington applicable to a Non-Charter Mayor/Council form of government. The City Council is composed of seven members elected at large to four-year terms. The city provides what are considered general government services including public safety, highways and streets, parks and recreation, planning and zoning, permits and inspection, sanitation, general administrative, and water and wastewater services.

The accounting and reporting policies of the City of Redmond, which conform to generally accepted accounting principles for governments, are regulated by the Washington State Auditor's Office, Division of Municipal Corporations.

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This statement includes significant financial reporting changes and allows for a phased implementation based on the size of the government. One of the most significant reporting changes is the inclusion of the government's general infrastructure (roads, bridges, traffic signals, etc.) as governmental assets in the financial statements. GASB 34 permits an optional four year delay in full reporting of the city's infrastructure. The city has elected to implement financial reporting under GASB 34 in its entirety, including all infrastructure, for the fiscal year ended December 31, 2002. Other significant changes in the city's financial reports as a result of GASB 34 are:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the city's overall position and results of operations.
- Financial statements prepared for the city as a whole under the full accrual basis of accounting.
- A change in the fund financial statements to focus on major funds.

The city has also implemented GASB statements 36, 37, and 38 related to revenue recognition, Management Discussion and Analysis and note disclosures.

The City's significant accounting policies are described in the following notes.

Reporting Entity

The city's Comprehensive Annual Financial Report (CAFR) includes all funds, agencies and boards controlled by or dependent on the city. Control by or dependence on the city was determined on the basis of financial accountability, budget adoption, taxing authority, outstanding debt service secured by revenues or general obligations of the city, obligations of the city to finance any deficits that may occur, or receipt of significant subsidies from the city. Accordingly, the Redmond Public Corporation is included in the accompanying financial statements (See Note 15).

Basic Financial Statements

The city's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary

funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Under the modified accrual basis of accounting, property taxes, sales taxes, utility taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 1. When the expenditure is incurred, grant revenue is considered to have been earned and therefore available and recognized as revenue. Entitlement grant revenue is not tied to expenditures and is recognized when the city is entitled to receive it according to the grant agreement. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Financial Statement Presentation

The city reports the following major governmental funds:

The **General Fund** is the general operating fund of the city. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

The **Local Improvement District Control Fund** is a debt service fund that accounts for resources accumulated and payments made for principal and interest on long-term special assessment debt.

The **Capital Improvements Program Fund** accounts for financial resources to be used for the acquisition, construction, and preservation of major capital facilities other than those financed by proprietary funds.

The city reports the following major proprietary funds:

The **Water/Wastewater Fund** accounts for the activities of providing water and sewer services to its citizens.

The **UPD Water/Wastewater Fund** accounts for the activities of providing water and sewer services to an urban planned development outside the city limits. Both of these utilities' operations are self-supported through user charges.

The **Stormwater Management Fund** accounts for the operation, construction, and maintenance of the city's stormwater management system. The utility's operations are self-supported through fees.

Additionally the city reports the following fund types:

Internal service funds account for fleet maintenance, information technology, and insurance services provided to other departments of the city on a cost reimbursement basis.

Agency funds account for assets held by the city as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

The **Pension Trust Fund** accounts for the activities of the **Firemen's Pension Fund**, which accumulates resources for excess pension benefit payments to qualified firefighters.

The city applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure. Governments have the option of following subsequent private-sector guidance for their business-type and enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal service funds for fleet maintenance and information technology. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the city's utility funds and internal service funds are charges to customers for sales and services, vehicle replacement, and insurance. The city also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and

sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The City of Redmond budgets its funds in accordance with the Revised Code of Washington (RCW) 35A.34. In compliance with the code, budgets for all funds are established with the exception of the LID Control and the LID Guaranty Debt Service Funds, and Fiduciary funds. Budgets established for proprietary funds are "management budgets" and as such are not required to be reported in the CAFR.

The biennial budget is proposed by the Mayor and adopted by the City Council with legal budgetary control at the fund level, i.e. expenditures and other financing uses may not exceed budgeted appropriations at the fund level. The Mayor may authorize transfers within funds, however, the City Council must approve by ordinance any additional appropriations which increase the total for the fund without transfers from other funds. Any unexpended appropriation balances lapse at the end of the biennium.

In addition to authorizing the budget, the City Council biennially approves the Capital Improvement Program. This is a six year plan for capital project expenditures and anticipated revenue sources. Expenditures and revenues for these projects are budgeted in the Capital Projects Funds.

The city prepares biennial budgets on the modified accrual basis which conforms to generally accepted accounting principles. The CAFR includes budgetary comparisons for the general, special revenue, and debt service governmental funds with legally adopted budgets.

The budget process and the time limits under which a budget must be developed are established by State law. The city follows the procedures outlined below in the year preceding the first year of the two year budget to establish its biennial budget:

- In spring, the Mayor meets with department heads to prepare for the upcoming budget process. The Mayor develops and submits a

budget calendar to the City Council for approval.

- Throughout the summer, city staff review revenue and expenditure estimates.
- In October, preliminary budget estimates are made available to the public.
- Sixty days before the ensuing fiscal year, the Mayor files the preliminary budget with the City Clerk's office.
- During the first two weeks of November, the Clerk publishes notice of the filing of the preliminary budget and publishes notice of public hearings.
- The City Council holds a series of study sessions to review the preliminary budget to determine if they wish to make any modifications to the Mayor's recommended programs.
- Public hearings are held prior to the adoption of the budget for the public to comment on recommended programs and to offer ideas for new programs.
- Prior to the beginning of the first calendar year of the biennial budget, the City Council, by a majority of the members present, adopts a final operating budget by ordinance.
- The Final Budget document is printed and distributed after adoption.

Assets, Liabilities, and Net Assets Or Equity

Cash and investments

It is the city's policy to invest all temporary cash surpluses. These investments are reported on the statement of net assets and the governmental funds balance sheet as cash and cash equivalents or investments. Included in cash and cash equivalents are currency on hand, demand deposits with banks or other financial institutions, investments with the Local Government Investment Pool, investments in U.S. Government Mutual Funds and investments with original maturities of three months or less. Interest is allocated to each fund on the basis of investments owned.

The city, by State law, is authorized to purchase Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission; U.S. Treasury and Agency Securities; bankers' acceptances and repurchase agreements. In accordance with GASB 31, investments in external 2a7-like pools, money market investments, and participating interest-earning investment contracts with remaining maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

Receivables

The City of Redmond recognizes receivables in its financial statements based on the accounting requirements for that statement. These receivables are as follows:

Property Taxes

Uncollected property taxes levied for the current year are reported as receivable at year-end. The city's property tax collections records show that approximately 99% of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected, therefore no allowance for uncollectible taxes is recorded.

Sales Taxes

Sales taxes collected for November and December but not remitted by the state to the city until January and February of the following year are reported as receivables at year end. There is no allowance for uncollectible sales taxes because all sales taxes are required by law to be collected by businesses at the time of sale and remitted to the state.

Investment Interest

Interest receivable consists of interest earned on investments at the end of the year, accrued interest on investments purchased between interest dates, and accrued interest and penalties on special assessments receivable. In proprietary funds and the government-wide statement of net assets investment interest is recorded as receivable, regardless of its payment date. In the governmental fund statements and schedules investment interest is recorded as receivable if it will be paid to the city within 60 days of year end.

Special Assessments

Special assessments are levied against certain property owners and become liens against the property benefited by the improvement. Special assessments receivable in the governmental fund statements consist of current assessments which are due within 60 days, delinquent assessments remaining unpaid after the due date, and deferred, uncollected assessments which have been levied, but are not due within 60 days. Special assessments receivable in the statement of net assets include all uncollected assessments regardless of due date.

Accounts Receivable

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided. Uncollectible amounts are considered immaterial and the direct write-off method is used.

Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds: (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Inventories

Inventories are defined as assets which may be held for internal consumption or for resale. The City of Redmond uses the following policies in valuing and recording inventory items:

In proprietary funds a perpetual inventory is maintained, in which the cost is capitalized when inventory items are purchased, and expensed when the item is consumed. The first-in, first-out valuation method, which approximates market, is used to value the inventory. A physical inventory is taken at year-end. No inventory is maintained in governmental funds.

Restricted Assets

Restricted assets include those monies reserved for revenue bond debt and customer’s deposits.

Deferred Charges

Deferred charges in the Water/Wastewater Fund are amortized under guidance provided by FASB 71 and consist of a water rate comprehensive plan, a sewer comprehensive plan, and a Rosehill sewer study which will be amortized and charged to expense over a five year period; the Tolt Pipeline project with the City of Seattle which will be amortized over a period of twenty years; and issuance costs for the 1994 debt refunding amortized over a fifteen year period.

Deferred charges in the governmental activities consist of issuance costs for the 1992 and 1994 GO bond refundings amortized over a fourteen year period and a twenty year period, respectively.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds. Capital assets are defined by the city as land and buildings with an original cost of \$50,000 or more each, machinery, equipment, software and other improvements with an original cost of \$10,000 or more each and an estimated useful life of more than one year; and all vehicles, artwork, transportation and utility infrastructure, regardless of their initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land, construction in progress, and works of art are not depreciated. Property, plant, and equipment of the city is depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings/Building Improvements	50
Other improvements	15-50
Vehicles	3-15
Machinery and equipment	6-20
Utility infrastructure	10-100
Streets, paths, trails	50
Street lights and traffic signals	30

Compensated Absences

It is the city's policy to permit employees to accumulate earned but unused vacation, compensatory time in lieu of overtime, and sick leave benefits. Twenty-five percent of unused sick leave is payable at retirement or death. Any outstanding sick leave is lost at resignation therefore, outstanding sick leave at year end is not accrued because the payment cannot be deemed probable nor can the amount be reasonably estimated. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements,

long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Overexpenditures

During 2002, one special revenue fund exceeded total authorized appropriations at the fund level. The Housing and Community Development Fund exceeded its appropriation by \$25,068. Additional grant revenues of \$36,000 were awarded during 2002 prior to the city

incurring the associated expenditures. Due to an oversight precipitated by staff shortages at the city, appropriation of the additional grant award did not occur prior to year end.

NOTE 3:
RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of aggregated differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between total fund balance and total net assets as reported in the government-wide statement of net assets. The details of the aggregated differences are presented below.

Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:

Deferred special assessment revenue due beyond the city's 60 day measurable and available period	\$ 1,750,947
Investment interest accrued beyond the city's 60 day measurable and available period	533,181
Deferred charge for bond issue costs	30,768
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 2,314,896</u>

Some liabilities, including bonds, loans and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:

G.O Bonds payable	\$ (9,635,000)
Less: Issuance discounts	94,339
Special assessment bonds payable	(2,485,000)
Loans payable	(3,725,644)
Contract payable	(1,016,417)
Accrued interest payable	(191,078)
Compensated absences	(2,045,935)
Due to business-type activities	(248,363)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (19,253,098)</u>

Explanation of aggregated differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of

governmental activities as reported in the government-wide statement of activities. The details of the aggregated differences are presented below.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Developer asset contributions	\$ 2,400,300
Deferred special assessment revenue	1,750,947
Change in investment interest receivable due beyond the city's 60 day measurable and available period	(791,011)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets - governmental activities	<u>\$ 3,360,236</u>

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net assets:

General obligation bonds	\$ 2,240,000
LID bonds	1,350,000
Public Works Trust Fund loans	371,717
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets of governmental activities	<u>\$ 3,961,717</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in accrued interest payable	\$ 22,863
Loss on equipment disposal	(20,660)
Amortization of debt issue costs	(5,294)
Amortization of debt discount	(21,914)
Change in compensated absences payable	(114,532)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental funds	<u>\$ (139,537)</u>

NOTE 4: CASH AND INVESTMENTS

As required by state statute, all investments and deposits of the city's funds are obligations of the U.S. Government, or deposits with Washington State banks and savings and loan institutions.

As of December 31, 2002 the carrying amount of the city's cash demand deposits with Bank of America was \$668,556 and the bank balance was \$549,677. The carrying amount and bank balance of the city's cash demand deposits at U.S. Bank at December 31, 2002 was \$224,753. \$344,435 retained from contractors pending acceptance of city construction projects was held in escrow or savings accounts at various banks. Petty cash totaled \$23,500 of which \$23,360 was allocated to various city offices and \$140 was unallocated and remains in the city's demand deposit account at Bank of America. \$10,000 is held by the City of Bellevue for use by the Eastside Narcotics Task Force. The city held \$48,699,522 in certificates of deposit at various banks. In addition the city had \$600,000 in a Banc of America Securities Money Market Account and \$575,000 in a U.S. Bank of Washington Money Market Account. All of the city's bank balances and certificates of deposit are categorized as risk category 1. The FDIC insures the first \$100,000 of the city's deposits. The deposit balances over \$100,000 are insured by the Washington Public

Deposit Protection Commission (WPDPC). The WPDPC is a multiple financial institution collateral pool. State statute permits additional amounts to be assessed on a pro rata basis to members of the pool in the event the pool's collateral should be insufficient to cover a loss.

The Local Government Investment Pool (LGIP) is a 2a7-like pool. The fair value of the city's pool investments is determined by the pool's share price. The city has no regulatory oversight responsibility for the State Investment Pool. The LGIP is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official.

As of December 31, 2002, city investments were categorized as risk category 1 as described in GASB Statement 3. Category 1 is defined to include those investments that are either insured or registered in the city's name or held by the city or its agent in the city's name. Investments are carried at cost or fair value in accordance with GASB 31.

Investment Type	Risk Category 1	Carrying Amount	Fair Value
U. S. Government Securities	\$ 40,613,404	\$ 40,613,404	\$ 40,613,404
	<u>\$ 40,613,404</u>		
Local Government Investment Pool		17,932,005	17,932,005
Investment in U.S. Government Mutual Fund		892,163	892,163
TOTAL INVESTMENTS		<u>\$ 59,437,572</u>	<u>\$ 59,437,572</u>

NOTE 5: RECEIVABLES

Property Taxes

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed on a daily basis.

<u>Property Tax Calendar</u>	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized when cash is received. At year-end, property tax revenues are recognized for December collections to be distributed by the county treasurer in January.

Under Washington State law a city may levy property taxes up to \$3.60 per \$1,000 of assessed valuation.

Redmond's maximum property tax levy rate has been reduced from \$3.60 to \$3.10, or \$.50, as a result of annexing to the King County Library District in May 1990. In addition to the limitation previously noted, the City's levy rate is also subject to the following:

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to one percent per year, after adjustments for new construction and annexations unless an increase greater than this limit is approved by the voters. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.

The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

Accordingly, the City levied \$1.30698 per \$1,000 of assessed value for general governmental services, and an additional \$0.28616 per \$1,000 of assessed value for voter approved excess tax levy, for a combined total of \$1.59314 per \$1,000 of assessed value.

**NOTE 6:
CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2002 was as follows:

Primary Government

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 37,093,452	\$ 2,322,708	\$ -	\$ 39,416,160
Construction In Progress	10,492,715	8,702,739	(7,630,422)	11,565,032
Art	190,255	8,000	-	198,255
Total Capital Assets, Not Being Depreciated	<u>47,776,422</u>	<u>11,033,447</u>	<u>(7,630,422)</u>	<u>51,179,447</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	25,825,617	319,716	-	26,145,333
Improvements Other than Buildings	4,441,857	2,163,461	-	6,605,318
Machinery and Equipment	14,192,479	1,687,877	(375,829)	15,504,527
Infrastructure	109,915,674	9,735,430	-	119,651,104
Total Capital Assets, Being Depreciated	<u>154,375,627</u>	<u>13,906,484</u>	<u>(375,829)</u>	<u>167,906,282</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	4,827,993	629,771	-	5,457,764
Improvements Other Than Buildings	2,252,548	293,220	-	2,545,768
Machinery and Equipment	6,298,827	1,372,775	(236,767)	7,434,835
Infrastructure	38,062,232	2,615,178	-	40,677,410
Total Accumulated Depreciation	<u>51,441,600</u>	<u>4,910,944</u>	<u>(236,767)</u>	<u>56,115,777</u>
Total Capital Assets, Being Depreciated, Net	<u>102,934,027</u>	<u>8,995,540</u>	<u>(139,062)</u>	<u>111,790,505</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u><u>\$ 150,710,449</u></u>	<u><u>\$ 20,028,987</u></u>	<u><u>\$ (7,769,484)</u></u>	<u><u>\$ 162,969,952</u></u>

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 4,127,687	\$ 843,279	\$ -	\$ 4,970,966
Construction In Progress	8,610,101	5,666,279	(8,395,972)	5,880,408
Total Capital Assets, Not Being Depreciated	<u>12,737,788</u>	<u>6,509,558</u>	<u>(8,395,972)</u>	<u>10,851,374</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	10,025,598	4,437,961	(388,109)	14,075,450
Improvements Other Than Buildings	118,863,472	19,695,860	(163,500)	138,395,832
Machinery and Equipment	1,839,059	72,290	(1,288,437)	622,912
Total Capital Assets, Being Depreciated	<u>130,728,129</u>	<u>24,206,111</u>	<u>(1,840,046)</u>	<u>153,094,194</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	796,940	273,288	(388,109)	682,119
Improvements Other Than Buildings	21,925,690	2,705,223	(163,500)	24,467,413
Machinery and Equipment	1,386,942	52,898	(1,288,437)	151,403
Total Accumulated Depreciation	<u>24,109,572</u>	<u>3,031,409</u>	<u>(1,840,046)</u>	<u>25,300,935</u>
Total Capital Assets, Being Depreciated, Net	<u>106,618,557</u>	<u>21,174,702</u>	<u>-</u>	<u>127,793,259</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 119,356,345</u>	<u>\$ 27,684,260</u>	<u>\$ (8,395,972)</u>	<u>\$ 138,644,633</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government	\$ 349,917
Security	610,702
Physical Environment	7,183
Transportation, Including Depreciation of General Infrastructure Assets	2,625,354
Economic Environment	12,569
Culture and Recreation	376,695
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on Their Usage of the Assets	<u>928,524</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 4,910,944</u>
Business-type Activities:	
Water/Wastewater	\$ 1,915,252
UPD Water/Wastewater	633,159
Stormwater	<u>482,998</u>
Total Depreciation Expense – Business-type Activities	<u>\$ 3,031,409</u>

**NOTE 7:
PENSION PLANS**

In accordance with GASB Statement No. 27, the following pension plan information is provided. All City full-time employees and part-time employees meeting required eligibility hours participate in the following one of two statewide local government retirement systems administered by the Washington State Department of Retirement Systems. Employees of both plans must work a minimum of 70 hours per month. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

The Department of Retirement Systems issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for each plan. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia WA 98504-8380

**Public Employees' Retirement System
(PERS)**

The State Legislature established PERS in 1947 under Chapter 41.40 of the Revised Code of Washington (RCW).

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the

system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 participants are eligible to retire at age 55 with 25 years of service, age 60 with 5 years of service, or at any age with 30 years of service. Members who terminated service with five or more years of service credit may, instead of withdrawing their contributions, be eligible to receive retirement benefits at age 65. The total annual pension benefit is 2% of the average final compensation times the number of years of service, based on the highest two-year period. Benefits may be paid to the participant for their lifetime or a reduced benefit may be paid to the participant with their surviving beneficiary receiving the same reduced benefit for the beneficiary's lifetime. Retirement benefits may not exceed 60% of final average compensation. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at 3% annually.

Plan 2 participants are eligible to retire at age 65 with 5 years of service or at age 55 with 20 years of service, receiving a reduced benefit. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. Members who terminated service with five or more years of service credit may, instead of withdrawing their contributions, be eligible to receive retirement benefits at age 65. The total annual pension benefit is 2% of the average final compensation times the number of years of service, based on the highest consecutive five-year period. Average final compensation does not include severance pay such as lump sum deferred sick pay or vacation pay. Retirement benefits may not exceed 100% of final average compensation. Retirement benefits are indexed to the Seattle consumer price index with a maximum of 3% increase annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and

employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

There are 1,155 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	62,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	18,412
Active Plan Members Vested	97,777
Active Plan Members Nonvested	55,159
Total	233,537

Law Enforcement Officers and Fire Fighters (LEOFF)

LEOFF was established in 1970 by the Legislature under Chapter 41.26 RCW.

The LEOFF system is a contributory multi-employer cost sharing retirement system administered by the State of Washington through the Department of Retirement Systems. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. Retirement benefits are financed by employee and employer contributions, investment earnings, and legislative appropriations. LEOFF is comprised solely of nonstate employees.

For Plan 1 participants the total annual pension benefit varies from 1% (five to ten years service) to 2% (twenty years or more of service) of final average salary. For members hired after February 19, 1974, the service retirement may not exceed 60% of final average salary. Members who terminated service with five or more years of credited service may, instead of withdrawing their contributions, be eligible to receive a service retirement allowance beginning the day following their 50th birthday. The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest 24 months' salary within the last

10 years of service. A cost of living allowance is granted, capped at 3% annually. Substantial disability and death benefits are provided by the plan.

Plan 2 participants are eligible to retire at the age of 50 with 20 years of service or at 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced 3 percent for each year before the benefit commences prior to age 53. The benefit is 2% of average salary per year of service. The average salary is based on the highest five-year period. A cost of living allowance is granted, capped at 3% annually. Death and disability benefits are also provided.

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates

are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

There are 359 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans as of September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	8,078
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	332
Active Plan Members Vested	10,894
Active Plan Members Nonvested	4,006
Total	23,310

PERS and LEOFF Plan Information

	PERS			LEOFF	
	PLAN 1	PLAN 2	PLAN 3	PLAN 1	PLAN 2
Employee contribution rate as a percentage of covered payroll:					
1/1/02 – 3/31/02	6.00%	.88%	-	-	4.50%
4/1/02 – 8/31/02	6.00%	.65%	-	-	4.39%
9/1/02 – 12/31/02	6.00%	.65%	**	-	4.39%
Employer contribution rate as a percentage of covered payroll:*					
1/1/02 – 3/31/02	1.77%	1.77%	-	.23%	2.93%
4/1/02 – 8/31/02	1.32%	1.32%	-	.22%	2.86%
9/1/02 – 12/31/02	1.32%	1.32%	1.32%***	.22%	2.86%

* Includes Administrative cost rate.

** Variable from 5.0% minimum to 15.0% maximum based on rate selected by PERS 3 member.

***Plan 3 defined benefit portion only.

Both the city and the employees made the required contributions. The city's required contributions for the years ended December 31, were:

	<u>PERS 1</u>	<u>PERS 2</u>	<u>PERS 3</u>	<u>LEOFF 1</u>	<u>LEOFF 2</u>
2002	\$ 35,760	\$266,674	\$ 797	\$ 1,857	\$ 310,065
2001	\$ 77,294	\$554,776	-	\$ 22,410	\$ 385,400
2000	\$ 101,616	\$716,064	-	\$ 43,435	\$ 405,757

Firemen's Pension Plan

The City is the administrator of the Firemen's Pension Plan (FPP), a closed, single-employer defined benefit pension plan established in conformance with Revised Code of Washington (RCW) 41.18. The Plan provided retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature. Membership is limited to firefighters employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the FPP for covered firefighters who retire after March 1, 1970. Membership in the FPP consists of one deceased and four retired firefighters, one of whom is currently receiving benefits.

The benefits provided by the Plan are potentially in excess of the State's LEOFF plan. For funding purposes and accruing costs, the benefits are measured by a modified aggregate projected benefit method, with the annual cost spread over the period ending December 31, 2010. Under this method, the required contribution is the portion of the actuarial present value of benefits allocated to a valuation year. The actuarial accrued liability is equal to the actuarial value of assets. This cost method is not appropriate for GASB Statements 25 and 27 purposes though it is still recommended for funding purposes. For GASB purposes, the entry age normal cost method is used. Under this method the projected benefits are

allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Liability minus the actuarial value of the fund assets. The UAAL will be amortized over a closed 30 year period beginning December 31, 2000. The Plan is a closed off plan and GASB disclosures make no special provision for reporting the cost for this type of plan. Therefore, the minimum actuarial required contribution (ARC) disclosed for GASB purposes has no relationship to the City's funding policy for the Plan.

Under State law, the FPP is provided an allocation of 25% of all moneys received by the State from taxes on fire insurance premiums, interest earnings, member contributions made prior to the inception of LEOFF, and city contributions required to meet projected future pensions obligations. The actuary has determined that no city contribution is required.

The financial activity of the Firemen's Pension Fund is included in this document, the Comprehensive Annual Financial Report of the City of Redmond. No separate stand-alone financial report is issued for the Firemen's Pension Fund.

Schedule of Funding Progress

The Schedule of Funding Progress is included in the Required Supplementary Information section at the end of the Notes to the Financial Statements.

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Total Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
December 31, 2000	\$ 41,581	\$ 30,148	137.9%
December 31, 2001	\$ 48,217	\$ 30,148	159.9%
December 31, 2002	\$ 51,484	\$ 15,456	333.1%

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation (NPO)</u>
December 31, 2000	\$ 30,148	137.9%	\$ (11,433)
December 31, 2001	\$ 30,218	159.6%	\$ (29,432)
December 31, 2002	\$ 15,662	328.7%	\$ (65,254)

The information presented in the preceding required schedules was determined as part of the actuarial valuations as indicated.

Valuation date:	January 1, 2002
Actuarial cost method for GASB purposes:	Entry Age Normal Cost Method
Amortization method:	Level Percentage of Projected Payroll Closed
Remaining amortization period:	30 years
Asset valuation method:	Market Value

Actuarial Assumptions:

Investment rate of return	7%
Projected salary increases	5%
Cost of living adjustments	4%

Annual Pension Cost and Net Pension Obligation

	Year Ending 12/31/01	Year Ending 12/31/02
1. Annual Normal Cost, beginning of year	\$ -	\$ -
2. Amortization of UAL, beginning of year	28,176	14,445
3. Interest to end of year	1,972	1,011
4. Annual required contribution at end of year (1 + 2 + 3)	\$ 30,148	\$ 15,456
5. Interest on net pension obligation	\$ (800)	\$ (2,060)
6. Adjustment to annual required contribution	(870)	(2,226)
7. Annual pension cost (4 + 5 - 6)	\$ 30,218	\$ 15,662
8. Employer Contributions	\$ 48,217	\$ 51,484
9. Change in net pension obligation (7 - 8)	\$ (17,999)	\$ (35,822)
10. Net pension obligation at beginning of year	\$ (11,433)	\$ (29,432)
11. Net pension obligation at end of year (9 + 10)	\$ (29,432)	\$ (65,254)

Municipal Employees Benefit Trust

By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418 (g) effective January 1, 1975. Permanent employees working 1040 or more hours per year are eligible but not required to participate in the plan. Temporary employees working less than 1040 hours per year are required to participate in the plan. Participating permanent employees may choose to defer income tax in accordance with Internal Revenue Code Section 401K, on all, part or none of their contribution while temporary employees may not defer income tax on any of their contribution. There were 544 permanent and 228 temporary participants with account balances at December 31, 2002.

The Municipal Employees Benefit Trust Plan is a defined contribution plan with participants contributing an amount equal to the current Social Security rate (7.65%). One hundred percent of the contributions made by employees hired before April 1, 1986 go to MEBT. Employees hired on or after April 1, 1986 contribute 6.2% to MEBT and 1.45% to Medicare. Permanent employees may make additional contributions up to the limit set by the Internal Revenue Code. The City contributes 7.65% for permanent employees and 4.75% for temporary employees. Of the City's contribution, 1.45% goes to Medicare for employees hired on or after April 1, 1986. Eighty percent of the remaining City contribution goes to MEBT and 20% to administrative fees. The City's contribution is based on the payroll for all employees who are eligible to participate in the plan, regardless of the number of participants. City payroll for participating employees in 2002 was \$32,069,593. Employee contributions were \$2,959,972. City contributions were \$1,743,214. The City's total payroll was \$33,645,083.

Plan assets consisting of stocks, bonds, and guaranteed insurance contracts, are not the property of the City and are not subject to the claims of the City's general creditors. The Plan is administered by the Plan Committee consisting of seven employee members. Employees who elect not to participate in the Municipal Employees Benefit Trust plan retain the disability and survivor income insurance provided by the Standard Insurance Company.

Actuarial determinations are not required because (1) long-term disability insurance and survivor income insurance are provided by a group insurance policy with

Standard Insurance Company, and (2) each participant shall at his normal retirement date instruct the Plan Committee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay retirement benefits in monthly or annual installments (no contributions by the City or the participant shall be added to his account after retirement), (c) pay a single sum in cash, or (d) elect to defer any or all retirement benefits to a later date.

Other Post-employment Benefits

The only post-employment benefit provided to City employees is post-retirement health care benefits, to LEOFF I retirees (in accordance with State statutes). Currently, 24 retirees meet those eligibility requirements. The City provides medical insurance and reimburses for all validated claims for medical, dental, and hospitalization costs incurred by these retirees. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$216,462 were recognized for post-retirement health care. The city will meet it's future liability for extended medical care costs for these LEOFF I retirees through a combination of third party insurance and a self funded reserve.

**NOTE 8:
CONSTRUCTION COMMITMENTS**

At December 31, 2002 the City had significant contractual obligations on construction projects.

Building Projects	\$ 135,630
Parks Projects	171,898
Street Projects	1,242,874
Utilities Projects	1,458,784
	<u>\$ 3,009,186</u>

**NOTE 9:
INTERFUND TRANSFERS**

FUND	TRANSFER IN	TRANSFER OUT
General Fund	\$ 965,971	\$ 6,238,600
LID Control Fund	223,736	151,314
Capital Improvements Program Fund	12,452,730	1,765,102
Non-Major Governmental Funds	2,555,419	7,974,834
Stormwater Management Fund	762	16,479
Internal service Funds	103,293	68,767
 TOTAL TRANSFERS	 \$16,301,911	 \$16,215,096

Transfers are legally authorized transfers of resources from funds receiving revenues to funds through which the resources are to be expended. In the fund financial statements, total transfers in of \$16,301,911 are greater than total transfers out of \$16,215,096 because vehicles purchased by governmental funds at the cost of \$86,815 were transferred to the Fleet Maintenance internal service fund. No amounts were reported in the governmental funds as no financial resources were transferred. The internal service fund did report a transfer in for the capital assets received.

**NOTE 10:
LONG-TERM OBLIGATIONS**

General Obligation Bonds

General Obligation Bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service is paid from the debt service funds. Debt service for voter approved issues is funded by special property tax levies.

General Obligation Bonds outstanding at year-end are as follows:

1992 Unlimited Tax General Obligation Advance Refunding Bonds: Issued to provide funds in an irrevocable trust to refund a portion of the 1986 GO Bonds, which were issued to provide funds for a Police building, a Senior Citizen's Center and street improvements. The 1986 G.O. Bonds were paid in full in 1996.

1994 Unlimited Tax General Obligation and Refunding Bonds: Issued to provide funds for a new fire station, and to provide funds in an irrevocable trust to refund a portion of the 1990 GO Bonds and the 1985 GO Refunding Bonds. The 1985 GO Refunding Bonds were paid in full in 1995. The 1990 GO Bonds were paid in full in 2000.

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/02
1992 Refunding	7/1/92	12/1/05	3.0-5.75%	\$15,100,000	\$ 9,940,000	\$ 5,160,000
1994 GO/Refunding*	3/1/94	12/1/13	4.0-5.65%	9,310,000	4,835,000	4,475,000
Total General Obligation Bonds/Notes:				<u>\$24,410,000</u>	<u>\$14,775,000</u>	<u>\$9,635,000</u>

* \$5,510,000 are refunding and \$3,800,000 are new debt.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities		
Year	Principal	Interest
2003	\$ 2,400,000	\$ 504,905
2004	2,565,000	373,788
2005	2,735,000	232,068
2006	200,000	100,065
2007	210,000	89,584
2008-2012	1,235,000	261,430
2013	290,000	8,192
	<u>\$ 9,635,000</u>	<u>\$ 1,570,032</u>

The 1992 and 1994 refunding bond issues are presented in the statement of net assets net of discounts. The gross bonds payable and discounts are as follows:

	1992 Refunding Bonds	1994 Refunding Bonds
Bonds Outstanding	\$ 5,160,000	\$ 4,475,000
Less Unamortized Bond Discount	(55,011)	(39,328)
Bonds Outstanding, Net	<u>\$ 5,104,989</u>	<u>\$ 4,435,672</u>

Special Assessment Debt with Governmental Commitment

Special Assessment Bonds are not a direct responsibility of the City, but are funded from the collection of special assessment payments. Debt service principal and interest costs are paid from the LID Control Fund. The Government is obligated for special assessment debt to the extent that it is required to establish a guaranty fund, for the purpose of guaranteeing the payment of local improvement bonds and warrants, in the event there are insufficient funds in the LID Control Fund. The Guaranty Fund is funded from interest income and surplus from the LID Control Fund, and is maintained at approximately 10% of the total original bond issue amounts.

Bonds, Issuances, Redemptions and Balances Outstanding

LID	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Bonds Outstanding 12/31/02
1992	11/01/92	11/01/04	3.5-6.125	\$2,713,000	\$2,428,000	\$ 285,000
1995	2/15/95	2/15/07	5.25-6.8	1,515,830	1,105,830	410,000
1998	3/01/98	3/01/10	4.0-5.0	1,241,036	456,036	785,000
1999	7/15/99	7/15/11	4.1-5.5	2,355,410	1,350,410	1,005,000
Total Special Assessment Bonds:				<u>\$7,825,276</u>	<u>\$5,340,276</u>	<u>\$2,485,000</u>

Annual debt service requirements to maturity for special assessment bonds are as follows:

Governmental Activities		
Year	Principal	Interest
2003	\$ -	\$ 135,389
2004	285,000	135,389
2005	-	118,070
2006	-	118,070
2007	410,000	118,070
2008-2012	1,790,000	325,600
Total	<u>\$ 2,485,000</u>	<u>\$ 950,588</u>

Contract Payable

The city entered into an agreement with a private party to purchase a 3.15 acre parcel in southeast Redmond for park land. Payments will be made from park impact fees collected in conjunction with building permits issued by the city. The total amount due is \$1,126,658. The agreement is silent as to interest and allows for variable payments from 2003 to 2006. The city has assumed equal payments will be made in each of the four years and has calculated interest using an imputed rate of 4.25%.

Year	Governmental Activities	
	Principal	Interest
2003	\$ 238,467	\$ 43,198
2004	248,602	33,063
2005	259,167	22,497
2006	270,181	11,483
Total	<u>\$ 1,016,417</u>	<u>\$ 110,241</u>

Revenue Bonds

Revenue Bonds are payable from revenues generated by the city's Water/Wastewater Fund. Water/Sewer Refunding Revenue Bonds were issued in 1993 to refund Water/Sewer Bonds issued in 1985 and 1988. The 1985 refunded bonds are paid in full.

Revenue Bonds, Issuance, Redemption, and Balance Outstanding

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Bonds Outstanding 12/31/02
1993 Water & Wastewater Refunding	4/1/93	12/1/08	3.0-5.7	\$5,105,000	\$2,250,000	\$2,855,000
Less Unamortized Bond Discount				(183,313)	-	(32,742)
Total Revenue Bonds:				<u>\$4,921,687</u>		<u>\$2,822,258</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

Year	Business-type Activities	
	Principal	Interest
2003	\$ 420,000	\$ 151,800
2004	440,000	131,220
2005	460,000	109,220
2006	485,000	85,530
2007	510,000	59,340
2008	540,000	30,780
Total	<u>\$ 2,855,000</u>	<u>\$ 567,890</u>

The 1993 refunding bond issue is presented in the statement of net assets, net of discounts, gains and losses. The gross bonds payable and related amounts are as follows:

1993 Refunding Bonds Outstanding	\$ 2,855,000
Less: Unamortized Bond Discount	(32,742)
Unamortized Loss on 1993 Refunding	(204,501)
Bonds Outstanding, net	<u>\$ 2,617,757</u>

Amortization of Gain/Loss Related to Refunding

In accordance with GASB Statement 23 the loss resulting from the refunded 1988 Water/Sewer Bond Issue is being amortized over a period of 15 1/2 years.

	Total	Amortized 2002	Amortized in Prior Years	Unamortized at December 31, 2002
1988	\$ 531,130	\$ 34,082	\$ 292,547	\$ 204,501

Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Redmond currently has nine such loans. Six loans with an outstanding principal balance of \$3,725,644 are being repaid from General Fund revenues which are transferred to the Capital Improvements Program Fund where the loan payments are recorded. Three loans with an outstanding principal balance of \$713,837 are being repaid from water and wastewater revenues.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2003	\$ 371,717	\$ 68,268	\$ 108,625	\$ 12,293
2004	371,717	61,559	108,625	10,337
2005	371,717	54,849	108,625	8,381
2006	371,717	48,139	108,625	6,426
2007	371,717	41,430	108,625	4,470
2008-2012	1,520,830	111,619	170,712	3,772
2013-2017	346,229	8,231	-	-
	<u>\$ 3,725,644</u>	<u>\$ 394,095</u>	<u>\$ 713,837</u>	<u>\$ 45,679</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General obligation bonds	\$ 11,875,000	\$ -	\$ (2,240,000)	\$ 9,635,000	\$ 2,400,000
Special assessment debt with government commitment	3,835,000	-	(1,350,000)	2,485,000	-
Less deferred amounts:					
For issuance discounts	(116,253)	-	21,914	(94,339)	-
Total bonds payable	<u>15,593,747</u>	<u>-</u>	<u>(3,568,086)</u>	<u>12,025,661</u>	<u>2,400,000</u>
PWTF loans	4,097,361	-	(371,717)	3,725,644	371,717
Contract payable	-	1,016,417	-	1,016,417	238,467
Compensated absences	<u>2,019,630</u>	<u>2,168,788</u>	<u>(2,039,602)</u>	<u>2,148,816</u>	<u>1,718,304</u>
Governmental activity Long-term liabilities	<u>\$ 21,710,738</u>	<u>\$ 3,185,205</u>	<u>\$ (5,979,405)</u>	<u>\$ 18,916,538</u>	<u>\$ 4,728,488</u>
Business-Type Activities:					
Bonds Payable:					
Revenue bonds	\$ 3,255,000	\$ -	\$ (400,000)	\$ 2,855,000	\$ 420,000
Less deferred amounts:					
For issuance discounts	(37,419)	-	4,677	(32,742)	-
Loss on refunding	<u>(238,583)</u>	<u>-</u>	<u>34,082</u>	<u>(204,501)</u>	<u>-</u>
Total bonds payable	<u>2,978,998</u>	<u>-</u>	<u>(361,241)</u>	<u>2,617,757</u>	<u>420,000</u>
LID Assessment	228,192	-	(32,599)	195,593	32,599
PWTF loans	822,462	-	(108,625)	713,837	108,625
Compensated absences	<u>234,092</u>	<u>189,085</u>	<u>(162,992)</u>	<u>260,185</u>	<u>208,148</u>
Business-type activity Long-term liabilities	<u>\$ 4,263,744</u>	<u>\$ 189,085</u>	<u>\$ (665,457)</u>	<u>\$ 3,787,372</u>	<u>\$ 769,372</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$102,881 of internal service funds compensated absences are included in the above amounts. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid.

**NOTE 11:
CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENTS**

Capitalization Threshold

Effective January 1, 2002, the city changed its capitalization threshold from an individual asset cost of \$1,000 or more to an individual asset cost equal to or greater than:

Land	\$ 50,000
Buildings/building improvements	\$ 50,000
Improvements other than buildings	\$ 10,000
Machinery and equipment	\$ 10,000

This change in accounting principle resulted in the restatement of beginning net assets of governmental and business-type activities.

GASB 34 Implementation

The City of Redmond implemented GASB 34 in 2002, resulting in the restatement of beginning net assets of governmental activities and business-type activities.

The restated amounts are as follows:

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
Beginning net assets – governmental funds	\$ 66,187,367	\$ -
Beginning net assets – internal service funds	10,241,350	-
Beginning net assets – business-type activities	-	142,504,799
Add:		
Capital assets	145,515,751	-
Investments interest accrual	1,324,192	-
Deferred debt issue costs	36,062	-
Less:		
Net book value of assets under the \$10,000 threshold	(118,405)	(565,045)
Compensated absence accruals	(1,931,402)	-
Long-term debt accruals	(19,905,049)	-
Add/Less:		
Internal service funds consolidation	(284,178)	284,178
Beginning net assets, restated	<u>\$ 201,065,688</u>	<u>\$ 142,223,932</u>

**NOTE 12:
SPECIAL ITEM AND PRIOR PERIOD ADJUSTMENT**

Special Item

On June 23, 1992, the city entered into a Utility Extension Agreement with a major developer for the purpose of providing water and sewer service to their property. A dispute arose between the city and the developer regarding the terms of the agreement and effective December 31, 2002, an addendum to the original agreement was approved to correct the previously recorded revenues. The addendum resulted in the UPD Water/Wastewater Enterprise Fund net assets being reduced \$744,229 and the Water/Wastewater Enterprise Fund net assets being increased \$106,873.

The special item adjustment consists of \$102,700 in capital contributions and \$4,173 in interest revenue being moved from the UPD Water/Wastewater Enterprise Fund to the Water/Wastewater Enterprise Fund; an additional

\$257,820 recorded as capital contributions in the UPD Water/Wastewater Enterprise Fund being reclassified as deferred revenue; and operating revenues in the UPD Water/Wastewater Enterprise Fund being reduced \$379,536.

Prior Period Adjustment

The 1991 Water System Comprehensive Plan was being amortized and charged to expense in the Water/Wastewater Fund over a twenty year period. Unexpectedly rapid growth in the city rendered the 1991 plan obsolete and the useful life of water and sewer comprehensive plans has been changed to five years. The \$74,537 remaining unamortized balance of the 1991 plan is reported in 2002 as a prior period adjustment.

**NOTE 13:
CLOSED FUNDS**

Four Capital Project funds were closed at the end of 2002. The Federal Aid Urban Fund, Transportation Improvement Board Fund, Transportation Improvement Fund, and Federal Aid Safety Fund were closed and their

residual balances transferred to the Capital Improvements Program Fund. The activities that had been accounted for in these funds will be accounted for in the Capital Improvements Program Fund.

**NOTE 14:
CONTINGENCIES AND LITIGATION**

As of December 31, 2002, there were a number of damage claims and lawsuits pending against the city. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would affect materially the financial condition of the city.

In 1996, it was discovered that during 1995 a major high-tech company in Redmond had erroneously continued to pay sales tax on new construction which had been

exempted under the state's recently enacted high-tech sales tax exemption legislation. An audit is currently underway by the Washington State Department of Revenue to determine the extent of the city's liability. Underpayments of sales tax in previous years may largely offset the 1995 overpayment. At this time the best estimate of the city's liability is in the range of \$0 to \$1,000,000. Sufficient resources have been set aside to pay the maximum liability, pending the outcome of the audit.

NOTE 15:
COMPONENTS INCLUDED IN REPORTING ENTITY

The RCW 39.84.100 grants cities the authority to establish Industrial Development Corporations. In 1982, the City of Redmond created the Redmond Public Corporation. This is a public corporation whose purpose is to issue tax-exempt non recourse revenue bonds to finance industrial development within city limits. The corporation may construct and maintain industrial facilities which it then leases or sells to industrial users. Revenue bonds issued by the corporation are payable from revenues of the industrial development facility funded by the revenue bonds.

In conformity with generally accepted accounting principles, the Redmond Public Corporation has been included in the financial reporting entity. The Corporation's Board of Directors is comprised solely of members of the City Council who have the authority to approve issuance of the corporation's revenue bonds. The ability of the City Council to impose its will on the

Redmond Public Corporation through the approval or disapproval of revenue bond issuance makes the City of Redmond financially accountable for the Public Corporation.

Although the Redmond Public Corporation is included in the reporting entity as a blended component unit, no financial impact is reported in the statements. The bonds are not a liability or a contingent liability of the City of Redmond or lien on any of its properties or revenues. Principal and interest on the bonds are payable solely from the funds provided for this payment from the revenues of the industrial development facilities funded by the revenue as provided in the RCW. Records regarding the financial statements of the entities on whose balance sheets the bond liabilities are reported are in the Office of the City Attorney, who acts as the Secretary of the Public Corporation.

NOTE 16:
SUBSEQUENT EVENTS

On January 1, 2003 the city assumed the lead role for the delivery of Advanced Life Support (ALS) services to Redmond, Duvall, Kirkland, Woodinville, and the surrounding unincorporated areas. Twenty-six employees

were transferred to the city's workforce from Evergreen Medic One, the prior service provider. Funding for the ALS services will come through King County from a property tax levy.

**NOTE 17:
RISK MANAGEMENT**

The city is exposed to various risks of loss such as: theft and damage and destruction of assets, errors and omissions, injuries or property damage to others, employees' health, and natural disasters. The city has three internal service funds to account for and finance its self-insured risks of loss. The city purchases commercial insurance for claims in excess of self-insured losses. Most funds of the city participate in the self-insurance programs and make payments to the self-insurance funds based on estimates of the amounts needed to pay excess insurance and related risk management and service costs, prior and current year claims paid in the current year, and to maintain adequate reserves for catastrophic losses in a given year.

The claims payment portion of the Insurance Claims and Reserve Fund provides coverage up to a maximum of \$100,000 per occurrence for insurance related claims and expenses. Settled claims have only exceeded \$100,000 three times in the past ten fiscal years. None of the current claims or lawsuits made or expected to be made against the city appear to have any reasonable likelihood of significantly affecting the city's financial situation for 2002. Reserves for open claims are established by an independent claims adjusting firm on a case reserve basis based on the assessment of the settlement potential and costs specifically associated with a particular claim given the information available at the time. Cases are reviewed no less than monthly and are subject to periodic audits. Lawsuits are reviewed and handled directly by the City Attorney or the excess insurer's appointed legal counsel. Reserves are established for estimated ultimate loss costs and related loss adjustment expenses.

The Medical Self-Insurance Fund provides coverage up to a maximum of \$100,000 per person per calendar year with the excess insurance covering up to a lifetime major medical maximum of \$1,000,000. There was one claim

in excess of the per person limit each year in 2002, 2001, and 2000. All funds of the city from which employee wages are paid make premium payments to the Medical Self-Insurance Fund based on health insurance rates derived from actual fund experience and Consumer Price Index increases.

Council authorized the city to self-insure workers' compensation benefits effective January 1, 1998 for employee injuries and illnesses. The city self-insures \$250,000 of each accident or illness and purchases excess insurance above that, up to the statutory requirements. No reported claim for 2002, 2001, or 2000 exceeded \$250,000. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2002, the city had reserves of \$20,923 in the Workman's Compensation Fund, \$85,022 in the Insurance Fund and \$441,017 in the Medical Self-Insurance Fund to provide against risk of future loss. Claims liabilities of \$535,210 have been reported in the Medical Self-Insurance Fund and \$10,389 in the Workman's Compensation Fund based on estimates provided by the city's third party administrators. Historically claims liabilities for IBNR (incurred but not reported claims) in the Insurance Claims and Reserve Fund average 15% to 20% of paid claims for the year. At the end of 2002, there is a reasonable possibility the city is liable for insurance claims in the range of \$20,000 to \$30,000. This claims liability has not been accrued due to the uncertain outcome of the claims outstanding. Reported claims liabilities are based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the self-insurance funds' claims liabilities in 2001 and 2002 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims & Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year Liability</u>
Insurance Fund				
2001	\$ -	\$ 373,560	\$ 373,560	\$ -
2002	\$ -	\$ 157,144	\$ 157,144	-
Medical Insurance Fund				
2001	\$402,163	\$2,585,102	\$2,577,207	\$410,058
2002	\$410,058	\$3,618,316	\$3,493,164	\$535,210
Workman's Compensation Fund				
2001	\$ 34,344	\$ 175,849	\$ 174,034	\$ 36,159
2002	\$ 36,159	\$ 133,879	\$ 159,649	\$ 10,389

Commercial insurance policies were purchased to protect the city from claims which exceed the coverage provided by the self-insurance funds.

	<u>Coverage</u>	<u>Self-Insured Retention</u>
Blanket building and personal property	\$20,000,000	\$100,000 except earthquake at 2% loss subject to a \$100,000 minimum
Flood	\$ 5,000,000	\$100,000 except earthquake at 2% loss subject to a \$100,000 minimum
Law enforcement	\$21,000,000	\$100,000
Errors and omissions liability	\$21,000,000	\$100,000
General and automobile liability coverage	\$21,000,000	\$100,000
Blanket fidelity (employee dishonesty)	\$ 1,000,000	\$ 5,000
Excess Workman's Compensation	statutory	\$150,000
Excess Medical Insurance	\$ 1,000,000	\$110,000